

095130

AUDIT STANDARDS
Supplement Series, No. 3



LM095130



CASE STUDY

ILLINOIS' USE OF PUBLIC ACCOUNTANTS FOR AUDITING STATE ACTIVITIES

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

1973

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Best Available Copy

The pamphlet "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" is for sale by the Superintendent of Documents, Public Documents Department, U.S. Government Printing Office, Washington, D.C., 20402; price 70 cents; Stock number 2000-00110.

Pamphlets explaining and supplementing the standards have been issued as follows:

AUDIT STANDARDS SUPPLEMENT SERIES

- No. 1. What GAO is Doing to Improve Governmental Auditing Standards (out of print.)
- No. 2. Auditors—Agents for Good Government
- No. 3. Case Study—Illinois' Use of Public Accountants for Auditing State Activities
- No. 4. Examples of Findings From Governmental Audits
- No. 5. Questions and Answers on the Standards for Audit of Governmental Organizations, Programs, Activities & Functions

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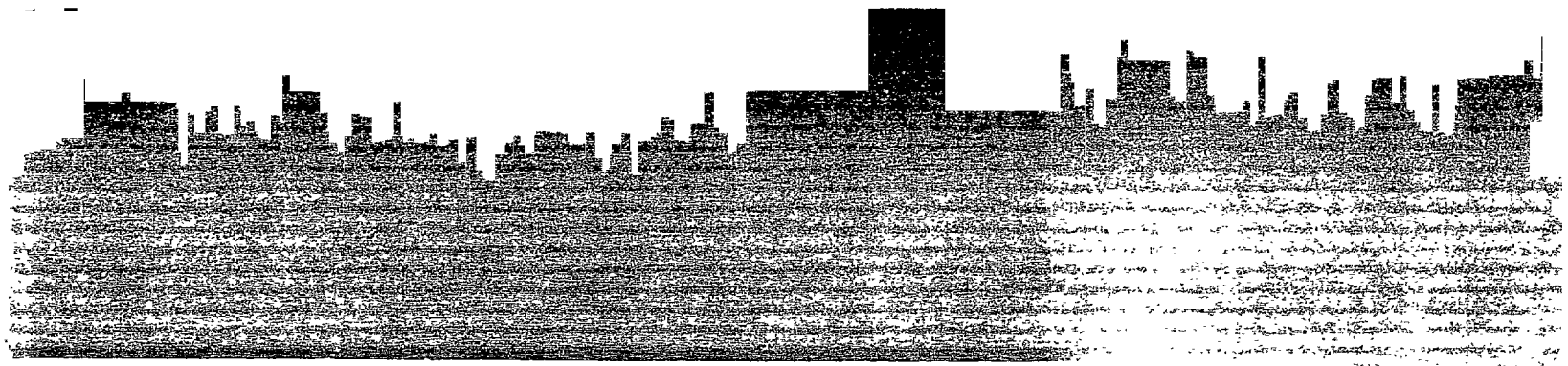
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In August 1972 we issued Organizations, Programs, Activities the standards, which applied to all and local governments to improve evaluation of federally assisted projects.

As State and local government resources increase, we anticipate that auditors to do more broad-scope governments may meet these demands auditing organizations or by continuing audits. We take no position on which

In Illinois the Auditor General firms to do State audits. We develop State uses public accountants to monitor Illinois postaudit program is set up how legislators and State agency cooperation study will be helpful to other State

We appreciate the cooperation the Illinois Legislative Audit Committee who helped in this study.

BEST DOCUMENT AVAILABLE



FOREWORD

In August 1972 we issued the "Standards for Audit of Governmental Organizations, Programs, Activities & Functions." The principal objective of the standards, which applied to all levels of government, was to stimulate State and local governments to improve the character and quality of auditing and evaluation of federally assisted programs.

As State and local governments' responsibilities for managing public resources increase, we anticipate that the demand will grow for State and local auditors to do more broad-scope audits and evaluations. State or local governments may meet these demands by developing or expanding their own auditing organizations or by contracting with public accounting firms for such audits. We take no position on which approach is more desirable.

In Illinois the Auditor General relies almost entirely on public accounting firms to do State audits. We developed this case study to illustrate how that State uses public accountants to meet its audit demands. It also shows how the Illinois postaudit program is set up, how the Auditor General does his job, and how legislators and State agency officials view the program. We believe that this study will be helpful to other State or local governments.

We appreciate the cooperation of the Illinois Auditor General and his staff, the Illinois Legislative Audit Commission, and the legislators and State officials who helped in this study.



James B. Staats

Comptroller General
of the United States

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CHAPTER 1

RESPONSIBILITIES OF THE ILLINOIS AUDITOR GENERAL

In 1957 the Illinois State Legislature passed the Illinois Auditing Act, which created the Department of Audits, headed by an Auditor General. The act requires that the Auditor General audit all State agencies at least every 2 years to determine whether:

- Funds were spent for the purposes for which they were appropriated.
- All State revenues and receipts were properly collected, accounted for, and protected.
- Funds were properly administered by State agencies.

The Auditor General is also required to assist State agencies by indicating areas of inefficient operation.

The act also created an Audit Advisory Board consisting of five members responsible for (1) examining and establishing standards for audits performed by or for the Department of Audits, (2) providing advice on State auditing problems, (3) cooperating with professional accountants to improve State audits, and (4) assisting the Governor and members of the State legislature in understanding audit reports submitted to them.

The legislature also created the Legislative Audit Commission, which is made up of 10 members of the Illinois House and Senate. The commission analyzes each audit report prepared under the direction of the Auditor General, discusses it with agency officials at public meetings, and reports its findings to the legislature. The commission emphasizes recommendations that will improve fiscal and operating procedures and does followup work to see that the recommendations have been acted upon.

CHAPTER 2

STATE'S MANAGEMENT OF AUDITS MADE BY

PUBLIC ACCOUNTING FIRMS

Many public accounting firms, under the direction of the Department of Audits, have participated in Illinois' auditing program for several years. Standard forms and letters used by the Department in contracting for and managing audits are included as the appendix.

BUDGETING FOR AUDITS

Before each fiscal year begins, the Auditor General develops a budget for audits required or determined to be needed during that period. He arrives at this budget by estimating (1) the man-hours required to complete each audit and multiplying that estimate by an hourly billing rate and (2) the amount of travel and administrative expenses to be incurred by the firms. The estimated man-hours and the hourly billing rate are based upon prior years' experience and the Auditor General's judgment.

SELECTION OF AUDIT FIRMS AND NEGOTIATION OF AUDIT FEE

The Auditor General then decides who will perform the audits. His staff of 4 postaudit supervisors is responsible for contracting with and overseeing a corps of approximately 50 public accounting firms which do most of the audits required. Firms are selected on the basis of:

- Size and complexity of the audit.
- Availability of competent audit and management services staff in the firm.
- Prior State audit experience.

--Geographic location
relation to the

--Quality of the

To insure that the adequate State auditing general requests the auditors to provide certain location, and State at the auditing experience State's audits. The least the audit supervisor prior audit has been If the Auditor General unacceptable, he will personnel.

After the firm is representatives meet to discuss terms and First, the firm is asked work at the hourly billing Auditor General. When representatives give training background information survey (at its own cost needed to make the audit

After the firm cost audit supervisor and to negotiate about the hourly administrative expense may accept a firm's proposal exceed the budget; how fixed. After the proposed contract with the firm proved proposal is correct amount and is so specified the Auditor General make the contract amount if audit which greatly in

--Geographic location of the State agency in relation to the firm.

--Quality of the firm's audits.

To insure that the assigned firm's staff has adequate State auditing experience, the Auditor General requests the audit firms and postaudit supervisors to provide certain information on the size, location, and State auditing experience of firms and the auditing experience of personnel assigned to the State's audits. The Auditor General expects that at least the audit supervisor or senior assigned to the prior audit has been reassigned to the current audit. If the Auditor General considers the assigned staff unacceptable, he will request reassignment of personnel.

After the firm is selected, the Auditor General's representatives meet with the firm's representatives to discuss terms and arrangements for the audit. First, the firm is asked whether it is willing to work at the hourly billing rate established by the Auditor General. When a rate is agreed upon, the representatives give the firm an assignment file containing background information and ask it to make a survey (at its own cost) to determine the man-hours needed to make the audit.

After the firm completes its survey, the post-audit supervisor and the firm's representatives negotiate about the hours and the travel and administrative expenses required. The Auditor General may accept a firm's proposal even if the man-hours exceed the budget; however, the excess must be justified. After the proposal is approved, a formal letter contract with the firm is executed. The firm's approved proposal is considered to be a maximum contract amount and is so specified in the contract. However, the Auditor General may later approve an increase in the contract amount if problems occur during the audit which greatly increase the audit effort.

The Auditor General gives the firm written instructions explaining the scope of the audit and the content, form, and arrangement of the audit report. These instructions, incorporated into the standard contract used by the Department of Audits, specify that the requirements of the Illinois Auditing Act be observed. Also, they require that the auditors

- express an opinion on the agency's financial statements;
- determine compliance with applicable statutes, laws, and regulations;
- evaluate the adequacy of internal accounting controls and accounting records;
- determine whether agency records and reports agree with those of the State's fiscal offices; and
- determine whether property and equipment are properly acquired, used, and safeguarded.

The instructions further require that the auditing firm disclose any indications of inefficient or uneconomical fiscal operations and financial management and any evidence of fraud or dishonesty. Additionally, it is specifically indicated that any material findings relative to the efficiency, economy, or effectiveness of the operations of the agency which the auditor can make should be disclosed. The firm is also instructed to determine what action the agency has taken as a result of recommendations of previous audit reports.

To encourage independence, the Department of Audits rotates audit firms after three to five successive audits of the same agency. The Auditor General's staff also makes some of the State audits, usually of the small commissions and boards which require limited audit effort.

CONDUCT OF THE AUDIT

The Department of Audits exercises its professional judgment regarding the conduct of audits; however, it has developed certain standards for the development of the audit that certain audit areas are more likely to occur, the Department of Audits State agencies where deficiencies are more likely to occur, the Department of Audits the agencies' operations, which the audit firms and postaudit supervisors and representatives to resolve.

REVIEW OF AUDIT REPORT

After the audit work is completed, the audit firm provides the Auditor General with copies of its draft report and the internal control supervisor reviews the Auditor General's instructions with and notes areas in need of revision or modification. The Auditor General then reviews the report and areas where the Auditor General has not been complied with, additional work.

The postaudit supervisor reviews the agency's position about the report to provide a reasonable basis for the report. He then meets with representatives of the firm to recommend changes which he believes will improve the report. The report is then prepared and sent to the Auditor General who reviews the report and changes have been made. The report is then reviewed by another postaudit supervisor and the Auditor General before it is approved.

CONDUCT OF THE AUDIT

The Department of Audits relies on the firm's professional judgment regarding the conduct of the audits; however, it has recently begun to contribute to the development of the audit program by requesting that certain audit areas be reviewed. For selected State agencies where deficiencies are believed to more likely occur, the postaudit supervisors survey the agencies' operations and note areas of concern which the audit firms are requested to review. The postaudit supervisors also attend selected exit conferences and other meetings of agency and audit firms' representatives to resolve audit problems.

REVIEW OF AUDIT REPORT

After the audit work and the exit conference are completed, the audit firm gives the Department of Audits copies of its draft report, the audit program, and the internal control questionnaire. The postaudit supervisor reviews these documents to insure that the Auditor General's instructions have been complied with and notes areas in the report requiring explanation or modification. If this review discloses areas where the Auditor General's instructions have not been complied with, the audit firm may have to do additional work.

The postaudit supervisor questions the firm about the agency's position on deficiencies noted in the report to provide a basis for evaluating the reasonableness of the findings and for discussing possible changes in the firm's position, if warranted. He then meets with representatives of the auditing firm to recommend changes that the Auditor General believes will improve the report. The final report is then prepared and sent to the postaudit supervisor, who reviews the report to insure that all agreed-to changes have been made. The final report is reviewed by another postaudit supervisor and by the Auditor General before it is approved for distribution.

PROCESSING OF AUDIT REPORT

After the Auditor General approves the audit report, he prepares a transmittal letter stating his position on each of the audit firm's findings and recommendations. Illinois statute requires that the reports be distributed to the:

- Chairman, Legislative Audit Commission.
- Governor.
- Chairman, Illinois Economic and Fiscal Commission.
- State agency audited.

Copies of the reports are also sent to the:

- Director, Bureau of the Budget.
- Superintendent, Division of Accounting, Department of Finance.
- Director, House Appropriations Committee Staff.
- Director, Senate Appropriations Committee Staff.
- Illinois Document Unit, Illinois State Library.

REVIEW OF AUDIT REPORT BY THE LEGISLATIVE AUDIT COMMISSION

The Executive Director of the Legislative Audit Commission and his staff review each audit report issued by the Auditor General and prepare a Review of Audit which summarizes the information in each report. The commission provides the State agency with a draft of the Review of Audit so that its comments can be incorporated into the final version.

Copies of the Review of Audit are then sent to each member of the Legislative Audit Commission before its monthly public meetings. State agency

representatives are asked to defend and discuss the findings and to explain or will take in response. Each recommendation is not disposed of until (1) the recommended procedures, (2) are agreed to and implemented the commission are satisfied not to accept a recommendation. Subsequent audits of agencies with information on the recommendations of earlier

representatives are asked to appear at the meetings to defend and discuss their position on the audit findings and to explain the actions they have taken or will take in response to the audit recommendations. Each recommendation is not considered to be fully disposed of until (1) the agency accepts the recommended procedures, (2) equally acceptable procedures are agreed to and implemented, or (3) the members of the commission are satisfied that the agency's decision not to accept a recommendation is appropriate. Subsequent audits of agencies provide the commission with information on the actions taken to comply with recommendations of earlier audits.

CHAPTER 3

DESCRIPTION OF SELECTED STATE AUDITS

To better understand the type of audit work done in Illinois, we reviewed 14 audits made by public accounting firms and 6 made by the Auditor General's staff. This chapter summarizes our observations and the views of the Legislative Audit Commission, the Audit Advisory Board, interested State legislators, State agency officials, and members of the accounting profession in Illinois on the impact of the postaudit program on State agency operations.

SCOPE OF STATE AUDITS

The public accounting firms basically made financial and compliance audits, although they also considered whether inefficiency existed in financial operations and management. Most of their audit reports showed that agency's efficiency and program results were not evaluated in detail; nor were audit tests designed to disclose efficiency-type problems.

The Auditor General's staff also made basically financial and compliance audits, which did not include evaluations of efficiency and economy or of program results. This, the Auditor General explained, was because the commissions and boards which his staff audited were small and had limited operations.

COMMENTS BY STATE OFFICIALS AND MEMBERS OF THE ACCOUNTING PROFESSION

According to the Legislative Audit Commission and the Audit Advisory Board, the postaudit program has improved State agency operations. Many of the commission and board members commented that the public accounting firms' and the State Auditor's audits gave agencies the incentive to keep operating efficiently and that internal control in the State had improved as a result of audit recommendations.

Each of the 11 leg officials contacted also contributed to improved assisted them in discha

The State agency o

1. The audits are control over fi tions.
2. Operating weakn the attention c tions in audit ment personnel
3. Agency manageme about changes i General recomme
4. Postaudits have ternal audit pr

Members of the acc lar high regard for the Chairman of the State C tal Accounting and Audi ciety of Certified Publ prominent public accour ence in State and local that the postaudit prog tions in Illinois.

COST OF THE POSTAUDIT I

During calendar ye Commission reviewed 14: diting firms at a cost

According to the / paid by the State are : commercial rates. He e accounting firms offer because:

Each of the 11 legislators and 5 State agency officials contacted also stated that the postaudits contributed to improved State operations and thereby assisted them in discharging their responsibilities.

The State agency officials said that:

1. The audits are needed to insure sufficient control over financial and compliance operations.
2. Operating weaknesses have been brought to the attention of management, and recommendations in audit reports have caused management personnel to reevaluate procedures.
3. Agency management can more easily bring about changes in legislation if the Auditor General recommends such changes.
4. Postaudits have helped improve agencies' internal audit programs.

Members of the accounting profession had similar high regard for the State auditing program. The Chairman of the State Government Section, Governmental Accounting and Auditing Committee, Illinois Society of Certified Public Accountants, and another prominent public accountant with extensive experience in State and local government auditing said that the postaudit program has improved State operations in Illinois.

COST OF THE POSTAUDIT PROGRAM

During calendar year 1971 the Legislative Audit Commission reviewed 145 audit reports prepared by auditing firms at a cost of about \$1 million.

According to the Auditor General, the rates paid by the State are somewhat less than prevailing commercial rates. He explained that public accounting firms offer the lower rates to the State because:

- Illinois' fiscal year ends June 30th; therefore, postaudits are made during the summer, which is the slack season for most firms.
- Illinois' 3-month lapse (in which obligations made before June 30th can be liquidated during the following 3 months) allows the firms flexibility in starting and completing audits.
- Some firms grant favorable rates to government clients as public service.

According to the Auditor General, the conditions in Illinois which result in favorable rates may also exist in other States and should be considered by States contemplating the use of auditing firms. The Auditor General periodically evaluates Illinois' postaudit rates in relation to rates charged by the firms to their commercial clients to insure that the rate difference is not unreasonable and that the fee for the postaudit is equitable.

PRINCIPAL FINDINGS AND RECOMMENDATIONS

The State's 1971 reports contained numerous recommendations to improve operations but did not identify measurable savings. The Executive Director of the Legislative Audit Commission explained that it was difficult and impractical to express the audit findings in dollars and cents. Typical findings and recommendations in the State's audit reports follow.

- Numerous recommendations were made to establish or expand internal audit activities.
- Some State agencies were accumulating costs incurred for Federal grants and cost-sharing programs in memorandum records which could not be relied on to insure that all reimbursable costs were recovered from the Federal Government. Recommendations were made for using formal

cost accounting procedures to be routinely accumulated.

- As a result of reimbursement costs, some universities and the State were receiving significant funds. Universities have authority although many other Auditors found that over the expenditure funds and recommendations established.
- Administrators of State grants to local government and other State agencies have adequate controls to insure funds or return of funds.
- Management of funds for improvement. Recommendations for systematic review of accounts.
- Some agencies did not have fund expenditures under controls as those applied from State appropriations.

cost accounting procedures so costs could be routinely accumulated and billed.

- As a result of reimbursements for indirect costs, some universities and agencies in the State were receiving and accumulating significant funds. Colleges and universities have authority to retain these funds, although many other State agencies do not. Auditors found that there were no controls over the expenditure of these reimbursed funds and recommended that controls be established.
- Administrators of State agencies making grants to local governmental bodies and other State agencies had not instituted adequate controls to insure proper use of funds or return of unused funds.
- Management of funds due to the State needed improvement. Recommendations called for systematic review and followup of past-due accounts.
- Some agencies did not always subject trust fund expenditures to the same fiscal controls as those applied to expenditures from State appropriations.

CHAPTER 4

ILLINOIS' PLANS FOR EXPANDING SCOPE OF AUDITS

The Auditor General told us that he was interested in expanding Illinois' audits into economy, efficiency, and program areas. He wants to develop more in-house capability but not to exclude public accounting firms.

We believe it desirable that he enlarge and develop his staff, adding some specialists, so that his staff can selectively conduct financial, compliance, economy and efficiency, and program results audits of most State agencies. With increased funds to support broad-scope audits, we believe the impact of the program could be improved. He can then continue to rely heavily on public accounting firms to do most of the postaudits, and he can encourage them to do more economy and efficiency work.

Beginning in fiscal year 1972, the Auditor General began contracting with many firms for increased economy and efficiency audits in special areas decided upon either before or during the audits. With legislative support, these goals and objectives could be established for agency operations in legislation and budget proposals. A Department of Audits survey on one operation of Illinois' Department of General Services revealed that the efficiency and effectiveness of the General Services' motor pool operations, the operation and need for its Federal Surplus Property Section, and the need for a unified interagency mail service warranted special reviews. The firm assigned to the General Services audit was requested to and did include these areas in its recently issued report.

The Auditor General is also considering cooperative audits with the firms. The Audit Advisory Board and some audit firms believe such joint arrangements would be feasible.

ILLINOIS

The following are examples of audits by the Department of Audits.

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- | | |
|------|--|
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ILLINOIS FORMS

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X Form used by postaudit supervisor
and Auditor General in making final
review of report submitted by public
accounting firm

40

CHICAGO OFFICE
220 STATE OF ILLINOIS BUILDING
180 NORTH LA SALLE STREET

DEP

OFFICE OF

Agency and Address

Dear Mr. _____:

This office has asked the
to make a preliminary survey of
in connection with our assignment
period ending June 30, 19____

Their representative will
cooperation with him will be app

DBT/gam
cc: Mr. _____, C.P.A.
Accounting Firm Name
Address

APPENDIX I

CHICAGO OFFICE:
525 STATE OF ILLINOIS BUILDING
180 NORTH LA SALLE STREET



DEPARTMENT OF AUDITS
STATE OF ILLINOIS
OFFICE OF THE AUDITOR GENERAL

DAVID B. THOMAS
AUDITOR GENERAL

SPRINGFIELD OFFICE:
716 STATE OFFICE BUILDING
401 SOUTH SPRING STREET

Date

Agency and Address

Dear Mr. _____:

This office has asked the accounting firm of _____
to make a preliminary survey of your accounting records and procedures
in connection with our assignment of the audit of your Agency for the
period ending June 30, 19____.

Their representative will be contacting you in the near future and your
cooperation with him will be appreciated.

Very truly yours,

D. B. THOMAS
Auditor General

DBT/gam

cc: Mr. _____, C.P.A.
Accounting Firm Name
Address

APPENDIX II

SAMPLE PROPOSAL LETTER

Date

Auditor General
State of Illinois
716 State Office Building
Springfield, Illinois 62706

CHICAGO OFFICE
520 STATE OF ILLINOIS BUILDING
100 NORTH LA SALLE STREET

Dear Sir:

OFFICE C

In accordance with your request, we submit our proposal for the post-auditing of _____ for the two fiscal years ending June 30, 1972.

Our examination will be conducted in accordance with generally accepted auditing standards, and the examination and our report thereon will follow the directions contained in "Instructions for Post-Audits of Illinois State Agencies" issued by the Auditor General.

The rough draft of our report and all related materials will be delivered to the office of the Auditor General for review on or before _____. The completed audit report will be delivered within _____ days after review of the rough draft is concluded.

We will be alert for audit findings in the areas of concern specified in paragraphs g and h of Section II A of the "Instructions" during our entire examination. Based on our preliminary survey, (select one) (a) we do not believe it to be practical to perform special audit tests in these areas at this time or (b) we propose to make special audit tests in these areas as follows: (describe special audit objectives)

We believe we will require a maximum of _____ professional hours to complete this engagement and that travel and incidental expenses will not exceed \$_____. Extending these maximum hours at the previously agreed maximum average rate per hour of \$_____ and adding travel and other expenses, we propose that our total charges for the audit will not exceed \$_____.

We request permission to submit a progress billing based on actual time and expenses spent on this audit through September 30, 1972, limited to a maximum of 50% of the total maximum contract amount proposed above.

Our final invoice will show our actual hours extended at standard billing rates plus actual other expenses, but our total charges will be reduced, if necessary, so as not to exceed the lesser of (a) the proposed maximum total charges above or (b) actual hours extended at the agreed maximum average rate per hour stated above plus actual travel and other expenses.

Very truly yours,

CPA & CO.

Gentlemen:

This Office is accepting and financial transactions on period indicated. It is agreed completed in accordance with State Agencies" (dated May 1, General.

The rough draft of the delivered to the Office of the before _____. The rough draft is concluded).

Included in the twenty Instructions are two copies. If the agency needs more than of the existence of such need copies shall be delivered to

It is agreed that the maximum not be in excess of \$_____ the agreed average hourly rate travel and other expenses of

Billings are to be made with memorandum regarding the dated May 1, 1972, and will the examination extended at travel expenses incurred and the total of these costs exceed excess of the contract maximum examination to arrive at the

APPENDIX III

CHICAGO OFFICE
520 STATE OF ILLINOIS BUILDING
160 NORTH LA SALLE STREET



SPRINGFIELD OFFICE
716 STATE OFFICE BUILDING
401 SOUTH SPRING STREET

DEPARTMENT OF AUDITS
STATE OF ILLINOIS
OFFICE OF THE AUDITOR GENERAL

DAVID B. THOMAS
AUDITOR GENERAL

Re: Audit of _____
for the period from _____
through _____ including
the lapse period ended September 30,

Gentlemen:

This Office is accepting your proposal to examine the fiscal matters and financial transactions of the above mentioned State agency for the period indicated. It is agreed that the work shall be undertaken and completed in accordance with "Instructions for Post-Audits of Illinois State Agencies" (dated May 1, 1972) issued by the Office of the Auditor General.

The rough draft of the audit report and all related materials will be delivered to the Office of the Auditor General for review on or before _____. The completed audit report will be delivered (on or before _____), OR (within _____ days after review of the rough draft is concluded).

Included in the twenty (20) copies of the audit report required by the Instructions are two copies for the agency. You are requested to determine if the agency needs more than the two copies therein provided and in the event of the existence of such need, you will supply the additional copies. All copies shall be delivered to the Office of the Auditor General.

It is agreed that the maximum consideration for this assignment will not be in excess of \$_____, which is based on _____ hours extended at the agreed average hourly rate of \$_____ to equal \$_____, plus travel and other expenses of \$_____.

Billings are to be made on the State's invoice-voucher, in accordance with memorandum regarding Preparation of State of Illinois Invoice-Vouchers dated May 1, 1972, and will show total professional man hours required for the examination extended at the agreed contract average hourly rate, actual travel expenses incurred and a reasonable itemization of other expenses. If the total of these costs exceeds the agreed contract maximum, the amount in excess of the contract maximum must be deducted from the total cost of the examination to arrive at the net amount due per the contract.

APPENDIX III

CHICAGO OFFICE
520 STATE OF ILLINOIS BUILDING
160 NORTH LASALLE STREET

*Insert here the paragraph at the bottom of the page, if applicable.

DE
OFFICE O

It is understood that this agreement cannot be binding on the Department of Audits of the State of Illinois prior to July 1, _____, and is contingent upon the approval by the General Assembly and the Governor of the State of Illinois of appropriations to the Department of Audits in amounts sufficient to implement the program of the Department for the fiscal period July 1, _____ to June 30, _____. After July 1, _____ the Department of Audits will confirm this agreement, if the above conditions have been met.

If this arrangement is satisfactory will you please sign the enclosed copy of this letter and return it to this office.

Addressee

Yours truly,

D. B. THOMAS
Auditor General

Dear

*You are authorized to submit a progress billing, based on actual time and expenses spent on this audit through September 30, _____, limited to 50% of the maximum consideration for this assignment.

Please be advised that the assigned the audit of the fiscal year _____ (Agency) _____ to June 30, 19____ to _____ certified public accountants.

Your cooperation and assistance are appreciated by this office.

APPENDIX IV

CHICAGO OFFICE:
220 STATE OF ILLINOIS BUILDING
160 NORTH LASALLE STREET



DEPARTMENT OF AUDITS
STATE OF ILLINOIS
OFFICE OF THE AUDITOR GENERAL
DAVID B. THOMAS
AUDITOR GENERAL

SPRINGFIELD OFFICE:
716 STATE OFFICE BUILDING
401 SOUTH SPRING STREET

Date

Addressee

Dear

Please be advised that the Office of the Auditor General has assigned the audit of the fiscal matters and financial transactions of (Agency) for the period July 1, 19 to June 30, 19 to (Accounting Firm) certified public accountants.

Your cooperation and assistance in this regard will be greatly appreciated by this office.

Very truly yours,

D. B. THOMAS
Auditor General

APPENDIX V

A. CONTRACTUAL PROVISIONS FOR THE SCOPE OF ALL AUDITS

1. The auditor will perform a financial audit leading to an opinion on the financial statements of the agency and render a report thereon in accordance with standards promulgated by the American Institute of Certified Public Accountants.
2. In order that the statutory duties of the Auditor General may be fulfilled, the auditor will, through specifically designed audit procedures, seek to determine the following and report his findings thereon in the audit report (see page 16, Par. 3):
 - a. Whether the money which has been appropriated by the General Assembly to the State agency has been expended in accordance with the purpose for which it was appropriated.
 - b. Whether the collections of State revenues and receipts are in accordance with applicable laws and there is proper accounting and protection for such revenues and receipts.
 - c. Whether money handled by the agency on behalf of the State or held in trust has been properly administered.
3. Recognizing the special purposes and objectives of the Illinois Post-Audit Program, the auditor will, during his examination, direct his attention towards particular areas of concern, and through specifically designed audit procedures make appropriate tests thereof, and report his findings in the audit report (see page 16 par. 4). The areas of concern may be expanded in particular audit contracts, but the following apply to all State agency audits:
 - a. Is the agency in compliance with the Illinois Purchasing Act and other statutes, laws, rules and regulations under which it was created and is functioning (excluding technical program areas)?
 - b. Are there material weaknesses in the agency's system of internal accounting control?
 - c. Are the accounting records of the agency adequate to record its financial transactions and to provide a basis for review of accountability by external auditors?
 - d. What action has the agency taken in regard to previous audit recommendations and what is the resulting status of the recommendations?
 - e. Do agency financial records and reports reconcile with those of the State's fiscal offices?
 - f. Are property and equipment properly acquired, utilized, and safeguarded by the agency?

There are two additional areas of concern which apply to all State agency audits but which are of such a nature that the size of the agency being audited or the nature of the operation may preclude the making of specific tests. In such cases this must be noted in the contract with a provision that the auditor will nevertheless remain alert for findings in these areas. They are as follows:

 - g. Are there indications of lack of efficiency or economy in fiscal operations and financial management of the agency?
 - h. Is there evidence of fraud or dishonesty in agency fiscal operations?
4. Audit findings and recommendations are not to be restricted to the above areas. Any material findings relative to the efficiency, economy or effectiveness of the operations of the agency which the auditor can make should be disclosed (see page 16 par. 5). For example, although standards against which to measure performance are not yet generally available in the agencies, common sense criteria should not be ignored. If the auditor sees waste or inefficiency he should report it.

INSTRUCTIONS: Post-Audit Sup
conference. F
have been assi

AUDIT

Firm name _____

Firm address _____

How many in this office:

Professional st

Partners

Management - St

Seniors

Assistants

Number of professional staff

State of Illinois agencies _____

Locations of firm's offices i

Number of firm's offices in 1

Can this office draw on other
if necessary? _____

APPENDIX VI

INSTRUCTIONS: Post-Audit Supervisor to complete at first negotiation conference. File in Accounting Firm file after audits have been assigned.

AUDIT FIRM DATA SHEET

Firm name _____ Date _____

Firm address _____

How many in this office:

Professional staff _____

Partners _____

Management - Supervisors _____

Seniors _____

Assistants _____

Number of professional staff in this office with experience in audits of State of Illinois agencies _____, other governmental agencies _____.

Locations of firm's offices in Illinois: _____

Number of firm's offices in USA: _____

Can this office draw on other offices of the firm for staff, if necessary? _____

APPENDIX VI

INSTRUCTIONS: To be completed by accounting firm and attached to Proposal.

PROFESSIONAL STAFF DATA SHEET

Firm name _____ Date _____

Firm address _____

Agency to be audited _____

_____ For period

ended _____

Prior audit of this agency, if done by you:

Name of Partner _____

Name of Manager-Supervisor _____

Name of Senior _____

Name of 1st Assistant to Senior _____

Number of other audit assistants _____

Names of technical specialists and specialties of each _____

Largest number of staff on job at one time _____

Subject Audit -

Names of staff to be assigned:

Partner _____

Manager-Supervisor _____

Senior _____

1st Assistant to Senior _____

Other audit assistants (number only) _____

Technical specialists and specialties of each _____

Qualifications and experience of each named staff assigned (resumes):

FORM

The content, form, and "Instructions For Post-Audit General, as detailed below.

ADDRESSEE OF REPORT

Each audit report for General, State of Illinois.

ORDER OF PRESENTATION

A long-form report showing uniformity in the arrangement of major sections and their preferred order.

Table of Contents
Auditor's Report on Financial Statements
Notes to Financial Statements
Report Comments and Recommendations
Functions and Program Analysis of Operations
Determinations Required
General Areas of Concern
Special Areas of Concern
Brief of Recommendations
Data to be included in the report.

TABLE OF CONTENTS

The report must contain all major sections. All pages of financial statements. Only one report.

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

In writing his opinion,

APPENDIX VII

Section IV

FORMAT OF AUDIT REPORT

The content, form, and arrangement of the report should conform to these "Instructions For Post-Audits of Illinois State Agencies", issued by the Auditor General, as detailed below.

ADDRESSEE OF REPORT

Each audit report for a State agency should be addressed to the Auditor General, State of Illinois.

ORDER OF PRESENTATION

A long-form report should be prepared for each agency being audited. As uniformity in the arrangement of data in the long-form reports is desirable, major sections and their preferred order within reports are set forth below:

- Table of Contents
- Auditor's Report on Financial Statements
- Financial Statements
- Notes to Financial Statements
- Report Comments and Recommendations:
 - Functions and Programs of the Agency
 - Analysis of Operations
 - Determinations Required by Statute
 - General Areas of Concern
 - Special Areas of Concern
- Brief of Recommendations and Findings

Data to be included in these sections is further described in succeeding paragraphs.

TABLE OF CONTENTS

The report must contain a Table of Contents setting forth the page location of all major sections. All pages must be numbered including the opinion and financial statements. Only one series of page numbers should be used in the Report.

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

In writing his opinion, the auditor should refer to the standards for audit

APPENDIX VII

reports listed below:

1. The report must contain a clear-cut indication of the character of the accountant's examination by stating whether it was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as the accountants considered necessary in the circumstances. Any limitations on the scope of the examination are to be clearly explained.
2. If the financial statements presented purport to show financial position and results of operations in accordance with generally accepted accounting principles, the report should include an unqualified opinion. Where an unqualified opinion is not given, the reason must be stated. An affirmative statement must be made concerning compliance with generally accepted accounting principles in areas other than those requiring qualifications.
3. If the financial statements presented do not purport to show financial position and results of operations in accordance with generally accepted accounting principles, for example, if the statements present assets, liabilities, and accountabilities and/or a summary of financial activities in accordance with State of Illinois fiscal regulations and the reporting requirements of the Auditor General, then the auditor must make sure his report carries a clear representation of what the statements do present and of the basis on which they have been prepared. He must express his opinion as to whether or not the statements fairly present the data on the basis indicated.

As an aid to auditors in meeting these standards, two examples of acceptable opinions are presented in Section V. The first (Exhibit I) could be used when financial position and results of operations are purported to be shown in accordance with generally accepted accounting principles; the second (Exhibit J) could be used in conjunction with a Note A to the Statements (Exhibit K), when financial statements are presented in accordance with State of Illinois fiscal regulations and the reporting requirements of the Auditor General and do not purport to show financial position and results of operations in accordance with generally accepted accounting principles.

The second type of opinion is more desirable for the usual State agency which obligates from appropriated funds and deposits revenue in the State Treasury and/or clearly does not have a financial position.

FINANCIAL STATEMENTS

Where financial position and the results of operations are to be shown, the following statements must be included:

1. Balance Sheet for each fund or fund group administered by the agency (all funds in one multi-column statement).
2. Summary of changes in fund balances during period under review.

3. Statement of Operations
 4. Statement of Changes in Fund Balances
- In other cases, the following statements must be included:
1. Statement of Assets and Liabilities (multi-column statement)
 2. Summary of Financial Activities

For all audits, the following schedules are required when applicable:

1. Statement of Appropriations (Exhibit H).
2. Schedule of expenditures for the 15 month period ending on the date of the audit on a comparative basis with the preceding year.
3. Schedule of changes in fund balances.
4. Schedules in sufficient detail involving Funds, Trusts, and Custody or Control of Funds.
5. Comparative schedule of revenues by detail source.
6. Where the information is available, a schedule of operations by fund or function showing performance.

Other schedules or statements may be necessary or desirable to properly present the financial conditions of the Funds or the State.

NOTES TO FINANCIAL STATEMENTS

Notes to financial statements are necessary to provide adequate explanation of the statements themselves and of the schedules if this appears more desirable.

It should be emphasized that the statements are theirs and that they are to be read in connection with them.

REPORT COMMENTS AND RECOMMENDATIONS

1. Functions and Programs
This section of the report contains a brief description of the functions and programs established to carry out the State's policy. These programs are to be carried out by the State and its agencies.

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3. Statement of Operations (comparative).
 4. Statement of Changes in Financial Position (for enterprise Funds only).
- In other cases, the following statements, or their equivalent, are required:
1. Statement of Assets, Liabilities and Accountabilities (all funds in one multi-column statement).
 2. Summary of Financial Activity (or, Statement of Changes in Accountabilities).

For all audits, the following additional statements and schedules are required when applicable:

1. Statement of Appropriations, Expenditures and Lapsed Balances (See Exhibit H).
2. Schedule of expenditures from appropriations for the fiscal year for the 15 month period ended September 30, by detail object account on a comparative basis with the prior year.
3. Schedule of changes in fixed assets.
4. Schedules in sufficient detail to allow evaluation of operations of Revolving Funds, Trust Funds, Federal Grants, and other Funds in the custody or control of the agency.
5. Comparative schedule of cash receipts and deposits with the State Treasurer by detail source of receipts.
6. Where the information is available, a schedule showing the breakdown of operations by functions or programs in sufficient detail to aid in judging performance.

Other schedules or statistical tables should be included if considered necessary or desirable to properly reflect an accurate picture of operations and financial conditions of the Funds of the agency being audited.

NOTES TO FINANCIAL STATEMENTS

Notes to financial statements should be included in this section when they are necessary to provide adequate disclosure and to insure proper understanding of the statements themselves. Short footnotes may be presented at the bottom of schedules if this appears most appropriate in the circumstances.

It should be emphasized to the agency that the footnotes and financial statements are theirs and that they have a responsibility to review and accept them.

REPORT COMMENTS AND RECOMMENDATIONS

1. Functions and Programs of the Agency

This section of the report should summarize the agency head's definition of the agency's purposes and the priorities of major programs established to accomplish the purposes during the period under audit. These purposes and programs should be compared to the stat-



APPENDIX VII

utes that relate to the functions of the agency.

While most of the comments section of the report will generally deal with *deficiencies*, this section may place major emphasis on the *proficiencies* of the agency, when such statements are warranted. The auditor's attempt to obtain a strong, positive statement from the agency head for inclusion at this point in the report may become the incentive for the agency head to do better planning.

When the auditor finds that little or no program planning is being performed and reasonable potential exists for significant benefits from such planning, he should report this fact as an audit finding.

2. Analysis of Operations

The report is to include the best possible analysis of operations using the management information available. As a minimum, the report must comment upon:

- a. Explanations of significant (amount and/or percentage) variations in revenue and expense (expenditures) from preceding periods.
- b. Significant details of "balance sheet" accounts and variations therein.

Explanations of agency officials must be sought and reported if no other source of information is available.

The report must fully describe all cash funds of the agency including depositories. Securities and investments must also be fully described including basis of valuation and interest rates, if applicable.

- c. Per year cost statistics should be included where applicable, and when presenting costs per patient, per inmate, per student, etc., it is preferred that these be "per year" costs, rather than "per day" or "per biennium." The method of computation should be briefly explained, and the figures qualified relative to reliability and application, if necessary.
- d. Either in the statements or in the comments, sufficient detail must be given as to the composition of inventories and basis of valuation.
- e. The current balances, cash flow, sources and applications of "Indirect Cost" reimbursement funds must be fully disclosed.
- f. The report must include the number of employees in the agency, preferably by function or activity, on a comparative basis.
- g. Significant lapse period spending and property control write-offs are of special interest and explanations of instances of these occurrences must be included.

- h. A clear distinction between assets and financial control and

3. Determinations Required

As required by Section II A, paragraph 1, determinations in regard to regular audit tests, by the auditors in report comments must have been tested as thereto.

With regard to the powers and duties of the auditor, it was appropriate to report comments on the adequacy of the powers and duties of the auditor.

With regard to the administration of the agency, means the adequacy of the administration in accordance with the standards established by the agency.

4. General Areas of Concern

Section II A, paragraph 2, requires the auditor to report their findings on particular areas of concern. The report comments should be a summary of the findings.

5. Special Areas of Concern

All audit contracts concern (such as a contract provision and alert for findings on other cases, the report should include a summary of each special area of concern and a summary of the audit objective and a summary of the findings.

Comments should always be included in the report.



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- h. A clear distinction should be made in the report between assets and financial transactions which are under appropriation control and those which are not.

3. Determinations Required by Statute

As required by Section II A, paragraph 2 of these Instructions, auditors must assist the Auditor General to make three specific determinations in regard to the agency examined. Where not covered by regular audit tests, *specially designed audit procedures must be used by the auditors in addressing themselves to these matters.* The report comments must contain a statement that these areas specifically have been tested as well as a summary of the audit findings relating thereto.

With regard to item (a) of Section II A, paragraph 2, "purpose for which it was appropriated" means those purposes expressly stated in the appropriation bills and/or other legislation which defines the powers and duties of the agency.

With regard to item (c) of Section II A, paragraph 2, "proper administration" of money held on behalf of the State or held in trust means the adequate discharge of financial and fiduciary responsibilities in accordance with the principles, standards, and other requirements established by law and good business practice.

4. General Areas of Concern

Section II A, paragraph 3 of these Instructions requires auditors to report their findings in regard to tests made relating to a number of particular areas that are of concern to the Auditor General. The report comments should contain a list of these "areas of concern" to which the auditors have specifically addressed themselves, as well as a summary of the audit findings relating thereto.

5. Special Areas of Concern

All audit contracts will contain provisions regarding special areas of concern (such as a review of efficiency and economy or of fraud and dishonesty; Section II A, paragraphs 3 g & h). The minimum contract provision and report comment will be that the auditor was alert for findings of efficiency, economy, fraud and dishonesty. In other cases, the report comments should contain a discussion of each special area of concern, including a definition thereof, applicable audit objectives, a description of the tests made and work done, and a summary of the findings.

Comments should always be in clear, concise and understandable language.

APPENDIX VII

Report material should be specific, and generalizations should be avoided. It is especially important that exact citations be given in commenting upon possible noncompliance with State statutes and regulations.

Recommendations and findings should be thoroughly explained in the report comments or brief. They should be reviewed with a policy-making official of the agency who should be given an opportunity to express the agency's views; however, it is not required that the report text contain a summary of the agency's position unless the agency so desires. All recommendations on matters of accounting principles or reporting which are not specifically required by law or State fiscal regulations must be made in terms that they be "considered" on the grounds of their practical benefits to the agency and these benefits should be described. The auditor must be sure to support all findings and recommendations with specific details and data, if not in the audit report itself, at least in his audit workpapers. Recommendations from prior reports must be carried forward until they are either implemented or withdrawn; however, audit findings not resulting in recommendations (shown as "Other Findings" below) normally would not be repeated.

BRIEF OF FINDINGS AND RECOMMENDATIONS

This section of the auditor's report should present a concise summary of findings, related recommendations, and other findings not related to recommendations. This summary should be cross-referenced to any related supporting data included elsewhere in the report.

All recommendations and other findings should be numbered in a single series and divided into the following groups:

1. Prior recommendations fully implemented during the period under review.
2. Prior recommendations not repeated and the reasons therefor.
3. Prior recommendations requiring attention.
4. New recommendations.
5. Other findings.

Prior recommendations fully implemented should be stated in positive form. The finding should describe the positive action taken by the agency, rather than repeating the original unimplemented recommendation.

Prior recommendations not repeated should be supported by clear statements of the reasons why the recommendations are no longer appropriate.

Prior recommendations requiring attention should be accompanied by clear statements of the auditor's findings as to the current status of the recommendations. The dates of the reports in which these prior recommendations were first made must be given.

Under new recommendations, begin each item with a brief and, if necessary, summarized statement of the audit finding. Follow this with a statement of

the related recommendation.

Other findings should include recommendations. Normally, only momentary lapses in controls are reported here, as should items reported by the agency itself or are broadly reported upon.

The numbering system used in the report should be the same as the system used (if any) for recommendations.

REQUIREMENTS AS TO COPIES

Reports should be filed in the Auditor General's office. However, financial statements should be filed in the agency's files.

At least twenty (20) copies of the report should be supplied to the Auditor General. This provides two copies to the Auditor General and the agency as to the agency's additional copies supplied. (Under the provisions of the Auditor General in Springfield.)

Reports should be prepared in triplicate for the Auditor General's permanent record. Irrespective of the number of copies, they should be legible, and suitable for reproduction.

MISCELLANEOUS TOPICS IN REPORT PRESENTATION

The Auditor General does not audit the agency's statements except for enterprise or financial-type activities where records exist and an auditor fee purposes would be of practical use in the negotiating process with the agency.

The term "obligation" is defined as unpaid obligations at a given date. On the basis of the records, the term "obligation" includes "accounts payable."

The statement of operations should be included in the agency under review which will show Salaries. It is preferred that the statement be included in the operating statement; however, if not, it should be reflected either in the comment

APPENDIX VII

the related recommendation.

Other findings should include all findings which do not have related recommendations. Normally, isolated instances of noncompliance which represent momentary lapses in controls that are otherwise operating effectively should be reported here, as should items of importance which cannot be implemented by the agency itself or are broader in scope than just the specific agency being reported upon.

The numbering system used in the brief must be the same as the numbering system used (if any) for recommendations in the report text.

REQUIREMENTS AS TO PAPER AND COPIES

Reports should be filed on good quality, unglazed paper 8-1/2" x 11" size. However, financial statements and schedules may be on larger paper if folded to that size.

At least twenty (20) copies of each report should be submitted to the Auditor General. This provides two copies for the agency. *Inquiry should be made of the agency as to the agency's requirements in excess of these two copies and the additional copies supplied.* (Unreasonable requests should be referred to the Office of the Auditor General) All copies should be delivered to the Office of the Auditor General in Springfield.

Reports should be prepared by processes which produce copies suitable for a permanent record. Irrespective of the process used, all copies should be clear, easily readable, and suitable for repeated photocopying.

MISCELLANEOUS TOPICS IN REPORT PRESENTATION

The Auditor General does not require accrual basis reporting in financial statements except for enterprise funds, revolving funds and other self-supporting or financial-type activities where it is of material significance. Where cash basis records exist and an auditor feels that conversion to the accrual basis for reporting purposes would be of practical benefit, the matter should be agreed upon as part of the negotiating process with the Office of the Auditor General.

The term "obligation" is now in general use in Illinois State agencies. Total unpaid obligations at a given date are equal to the total accounts payable and encumbrances at that date. Whenever possible, especially in reporting on cash basis records, the term "obligations" should be used instead of "encumbrances" and/or "accounts payable."

The statement of operations should include any amounts applicable to the agency under review which were paid from the appropriation for State Officers' Salaries. It is preferred that the applicable amounts be reflected in the body of the operating statement; however, this may also be handled as a footnote to the operating statement. If this statement is not presented, these amounts should be reflected either in the comments or as a footnote to the appropriations statement.

APPENDIX VIII

OFFICE OF THE AUDITOR GENERAL
Department of Audits

ROUGH DRAFT REVIEW QUESTIONNAIRE

Agency _____

Audit Period _____

Auditing Firm _____

Final Report to be delivered: _____

SPECIAL NOTES FOR THIS ASSIGNMENT:

Special or innovative audit procedures which might be of value elsewhere: _____

Special staff utilized: _____

Possible subjects for final "Audit Review" transmittal letter: _____

Possible special areas of concern in next audit: _____

Other Notes: _____

Date of Auditor's Review with Agency: _____

Agency Officials present: _____

Agency position regarding findings or re

Questionnaire Completed - Initial _____

Rough Draft Conference - Initial _____

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Date of Auditor's Review with Agency: _____

Agency Officials present: _____

Agency position regarding findings or recommendations that we should be aware of: _____

Questionnaire Completed - Initial _____ Date _____

Rough Draft Conference - Initial _____ Date _____

APPENDIX IX

Auditor's Basic Check List for Post-Audits of Illinois State Agencies (Keyed to Auditor General's Instructions, May 1, 1972)

(One copy to be completed and submitted with Rough Draft)

Agency Audited _____
Period _____
Contract Delivery Date for Rough Draft _____
Accounting Firm _____
Firm's Representative _____

General Matters:

	See Instructions Page No.	Yes, No, N/A
1. Has the booklet "Instructions for Post-Audits of Illinois State Agencies" been read by all audit staff?		_____
2. Have appropriate background materials such as the biennial report of the Office of the Auditor General been consulted?	7	_____
3. Has the Auditor General been notified of any other State work undertaken by the firm?	10	_____
4. Has the audit staff been reminded to:		
A. Report significant findings to the Auditor General immediately?	7	_____
B. Avoid discussing the assignment with unauthorized persons?	11	_____
C. Ask the agency's requirements as to number of copies of the report?	18	_____
D. Give audit adjusting entries to the agency?	11	_____
E. Hold adequate exit conference(s) at the necessary organizational level(s)?	10, 17	_____
F. Fill out and return any special questionnaires in the assignment file?	10	_____

Internal Control Survey:

5. Have two copies of the Internal Control Survey been prepared for the Auditor General?
6. Has a listing of books and by the agency been included?

Audit Program:

7. Have two copies of the entire audit program followed been prepared for the Auditor General?
8. Is a list of Statute references reviewed included?
9. Is it evident from the audit program:
 - A. All funds were audited by letter of representation from the agency.
 - B. Tests required by the statute of special department concern were made?
 - C. Compliance was tested applicable and with State rules (e.g., BOB Circulars)?
 - D. An effort was made to include any federal and audit reports?
 - E. The work of the audit program throughout the and during the audit was relied upon to the work?
 - F. Proper confirmation followed?
 - G. Review of travel included review of Control Board claims, etc.?

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	See Instructions Page No.	Yes, No, N/A
<u>Internal Control Survey:</u>		
5. Have two copies of the Internal Control Survey been prepared for submission to the Auditor General?	6	_____
6. Has a listing of books and records in use by the agency been included?	6	_____
<u>Audit Program:</u>		
7. Have two copies of the entire program actually followed been prepared for submission to the Auditor General?	6	_____
8. Is a list of Statute references that were reviewed included?	6	_____
9. Is it evident from the audit program itself that:		
A. All funds were audited and an adequate letter of representation was obtained from the agency?	11	_____
B. Tests required by contract in the areas of special determinations and areas of concern were made?	3, 4	_____
C. Compliance was tested with specially applicable and general statutes, and with State rules and regulations (e.g., BOB Circulars)?	6, 7	_____
D. An effort was made to find and review any federal audit reports, internal audit reports, etc. on the agency?	7	_____
E. The work of the internal auditors throughout the period under review and during the audit itself was relied upon to reduce the scope of the work?		_____
F. Proper confirmation procedures were followed?	8, 9	_____
G. Review of travel vouchers for compliance included review of submissions to Travel Control Board and refunding disapproved claims, etc.?	11	_____

APPENDIX IX

	See Instruction Page No.	Yes, No, N/A	
H. Federal Grants were examined for compliance with major fiscal requirements of the grant agreement?	11	_____	(a) Bill number (b) Data agree with bill?
I. Federal Grants were examined for indirect cost reimbursement eligibility, amounts claimed, and disposition of such receipts?	11	_____	(c) Transfers (d) Transferor (e) Authorization
<u>Audit Report:</u>			
10. Is a Table of Contents provided?	12	_____	(f) Lapsed balance Auditor of (Controlling)
11. Are all pages numbered (one series)?	12	_____	(g) Significant discussed
12. Is the report addressed to the Auditor General?	12	_____	
13. Does the auditor's report on the financial statements (auditor's opinion) meet the standards set by the Auditor General's Instructions?	12, 13	_____	(2) 15 months' Expenditure by detail object code
14. Are all required financial statements provided?			(3) Changes in Fixed Assets
A. Where financial position and results of operations are purported to be shown:			(a) Material with the comments
(1) Balance Sheet (all funds)	13	_____	(4) Comparative cash reconciliation with State Treasury
(2) Changes in Fund Balances	13	_____	(5) Schedules on sufficient evaluation of the operations
(3) Statement of Operations (comparative)	14	_____	(a) Trust Fund
(4) Changes in Financial Position (enterprise funds only)	14	_____	(b) Federal Grants
B. In other cases (most State agencies):			(c) Indirect Costs Funds
(1) Statement of Assets, Liabilities, and Accountabilities (all funds)	14	_____	(d) Revolving
(2) Changes in Accountabilities	14	_____	(e) Other Spec
(3) Explanatory notes as to basis of statements		_____	(6) Schedule showing the by functions or projects
C. Additional statements for all reports:			
(1) Appropriations, Expenditures and Lapsed Balances (for each fiscal year)	14, 28	_____	15. Do beginning balances, etc. agree with the prior
			16. Do key figures cross-reference financial statements?

APPENDIX IX

	See Instructions Page No.	Yes, No. N/A
(a) Bill numbers shown?	28	_____
(b) Data agrees with appropriation bill?		_____
(c) Transfers shown gross?	28	_____
(d) Transferor or transferee shown?	28	_____
(e) Authorization for transfer noted?		_____
(f) Lapsed balance agrees with Auditor of Public Accounts (Controller)		_____
(g) Significant lapse period spending discussed in the comments?	15	_____
(2) 15 months' Expenditures from Appropriations by detail object code (comparative)	14	_____
(3) Changes in Fixed Assets	14	_____
(a) Material write-offs discussed in the comments?	15	_____
(4) Comparative cash receipts and deposits with State Treasurer (reconciled)	14	_____
(5) Schedules on sufficient detail to allow evaluation of the operations of:		
(a) Trust Funds	14	_____
(b) Federal Grants	14	_____
(c) Indirect Cost Reimbursement Funds	14	_____
(d) Revolving Funds	14	_____
(e) Other Special Funds	14	_____
(6) Schedule showing the breakdown of operations by functions or programs (if possible)	14	_____
15. Do beginning balances, comparative figures, etc. agree with the prior audit report?		_____
16. Do key figures cross-reference properly in the financial statements?		_____

APPENDIX IX

	See Instructions Page No.	Yes, No, N/A	
D. Revenues or receipts?	15	_____	17. Has a clear distinction been made between assets and financial transactions, appropriation control and the like?
E. Expenditures?	15	_____	18. Has accrual basis been used for entering, rise funds, and other similar financial-type activities?
28. Are per patient/inmate/student costs per year reported?	15	_____	19. Has "obligation" terminology been used, if possible?
A. Is the computation explained (and qualified if necessary)?	15	_____	20. Have State Officers' salaries been disclosed in financial statements or in a report?
29. Is the number of employees (comparative) reported?	15	_____	21. Has the agency head's definition of programs of the agency been presented?
A. Is there a breakdown by function or activity (if possible)?	15	_____	A. Do these definitions conform with the statutes that relate to the agency?
30. Does the report state that the audit was performed in accordance with "Instructions for Post-Audits of Illinois State Agencies," issued by the Auditor General?	3	_____	B. If program planning is not feasible, are reasonable potential benefits from such planning been reported as an item?
31. Does the report state that the three "statutory determinations" listed in Section IIA, Paragraph 2 of the Instructions have been tested for and that any audit findings have been included in the report comments?	16	_____	22. Are operational analyses, program budgetary activity presented (even if taken from unaudited reports)?
32. Does the report list the "areas of concern" to which the auditors have addressed themselves (see Section IIA, Paragraph 3 of the Instructions) and state that any audit findings have been included in the report comments?	16	_____	23. Have the current balance, cash application of Indirect Cost been fully disclosed?
33. Has appropriate comment been made concerning the contractual agreement for review of special areas of concern (see Section IIA, Paragraphs 3g and h) and the results of this review?	16	_____	24. Are cash funds fully described and named?
34. Does the report state that all material findings have been disclosed in the report?	_____	_____	25. Are securities and investments of valuation noted, and interest disclosed?
35. Have all exceptions, findings, and recommendations in the opinion, report narrative, etc. been "Briefed" at the end of the report text?	17	_____	26. Is sufficient detail presented in inventories and their basis of valuation?
36. Are all findings and recommendations supported by specific data in the report and sufficient evidence in the auditor's work papers?	17	_____	27. Have significant changes per the report been analyzed and agency's comments?
37. Are all references to possible statutory violations supported by specific statutory citations?	17	_____	A. Assets?
			B. Liabilities?
			C. Accountabilities?

APPENDIX IX

	See Instructions <u>Page No.</u>	Yes, No, N/A
17. Has a clear distinction been maintained between assets and financial transactions under appropriation control and those which are not?	16	_____
18. Has accrual basis been used for revolving funds, enter, rise funds, and other self-supporting or financial-type activities?	18	_____
19. Has "obligation" terminology been used wherever possible?	18	_____
20. Have State Officers' salaries been reflected in the financial statements or in a footnote?	18	_____
21. Has the agency head's definition of functions and programs of the agency been presented?	14	_____
A. Do these definitions compare to the statutes that relate to the functions of the agency?	15	_____
B. If program planning is deficient, does reasonable potential exist for significant benefits from such planning and has this been reported as an audit finding?	15	_____
22. Are operational analyses, program costs, costs by budgetary activity presented and/or commented upon (even if taken from unaudited internal reports)?	15	_____
23. Have the current balance, cash flow, sources, and application of Indirect Cost reimbursement funds been fully disclosed?	15	_____
24. Are cash funds fully described and the depositories named?	15	_____
25. Are securities and investments fully described, basis of valuation noted, and interest rates indicated?	15	_____
26. Is sufficient detail presented on composition of inventories and their basis of valuation?	15	_____
27. Have significant changes per the financial statements been analyzed and agency's comments reported for:		
A. Assets?	15	_____
B. Liabilities?	15	_____
C. Accountabilities?	15	_____

APPENDIX IX

	See Instructions Page No.	Yes, No, N/A	
38. Do foreseeable benefits of recommendations justify labor and costs of implementation?	2	_____	<u>FINAL</u>
39. Are recommendations on matters of accounting principle or reporting not required by law made in terms that they be "considered" on the grounds of their practical benefits?	17	_____	NAME OF AGENCY: _____
40. In the summary, or "Brief", are the findings and recommendations:			PERIOD COVERED: _____
A. Numbered in a single series (same numbers as in text, when numbered in text)?	17, 18	_____	AUDITORS: _____
B. Cross-referenced by page number to report opinion, report narrative, etc.?	17	_____	Name of Rough Draft Reviewer: _____
C. Stated in complete sentences?		_____	A. To be performed by the rough draft reviewer
D. Classified as "Fully Implemented," "New Recommendations," etc. as per the Instructions?	17	_____	Satisfactory action has been taken rough draft review _____
41. Are all recommendations of the prior report included (except those previously withdrawn or reported as fully implemented)?	17	_____	Table of Contents reflects that fact _____
42. Are fully implemented prior recommendations stated in positive form?	17	_____	B. To be performed by Post Audit Supervisor possible:
43. Are prior recommendations not repeated supported by sufficient reasons for their withdrawal?	17	_____	Read report _____
44. Is the current status shown for each prior recommendation still requiring attention?	17	_____	I understand and endorse the recommendations exceptions _____
A. Is the date of the report given in which each of these recommendations was first made?	17	_____	_____
45. Are new recommendations supported in the Brief by a concise statement of the related audit finding?	17, 18	_____	Note any deficiencies in the report _____
46. Are Other Findings clearly stated and the reasons for their disclosure apparent, without further explanation?	18	_____	Note any matters which should be General _____
			Prepare Audit Review for Legislative Budgetary Commission _____
			C. Auditor General Review _____
			NOTES AND COMMENTS:

APPENDIX X

FINAL REVIEW

NAME OF AGENCY: _____

PERIOD COVERED: _____

AUDITORS: _____

Name of Rough Draft Reviewer: _____

A. To be performed by the rough draft reviewer, if possible:

Satisfactory action has been taken on all exceptions noted during the rough draft review _____

Table of Contents reflects that final report contents are satisfactory _____

B. To be performed by Post Audit Supervisor other than rough draft reviewer, if possible:

Read report _____

I understand and endorse the recommendations with the following possible exceptions _____

Note any deficiencies in the report _____

Note any matters which should be called to the attention of the Auditor General _____

Prepare Audit Review for Legislative Audit Commission, Governor, and Budgetary Commission _____

C. Auditor General Review _____

NOTES AND COMMENTS: